LETSEMENG LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Auditor General South Africa

General Information

Mayoral committee	
Mayor	Cllr. T.I. Reachable
Councillors	Cllr. M.A. Mpatshehla
	Cllr. M.M. Tsiloana
	Cllr. M.U. Jantjies
	Cllr.P.M. Dibe
	Cllr. S. Lecoko
	Cllr. P.S. Musa
	Cllr. V.A. Mona
	Cllr. P. Louw
	Cllr. L. Greef
	Cllr. V. Coetzee
	Cllr. K. Nel
Grading of local authority	Grade 2
Accounting Officer	B.A. Mnguni
Chief Finance Officer (CFO)	K. Khoabane (Appointed 1 December 2015) O. Seane (Acting 1 October 2015 - 30 November 2015) J. Mazinyo (Acting 1 July 2015 - 30 September 2015)
Registered office	Civic Centre 7 Groottrek Street Koffiefontein 9986
Business address	Civic Centre 7 Groottrek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Bankers	First National Bank ABSA
Auditors	Auditor General South Africa

Index

The reports and statements set out below comprise the Annual Financial Statements presented to the provincial legislature:

Abbreviations

ASB	Accounting Standards Board
COID	Compensation for Occupational Injuries and Diseases
DWAF	Department of Water Affairs
DBSA	Development Bank of South Africa
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GAAP	Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SDL	Skills Development Levies

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the Annual Financial Statements and are given unrestricted access to all financial records and related data.

The Annual Financial Statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The Annual Financial Statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the 12 months to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Municipality for continued funding of operations. The Annual Financial Statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's Annual Financial Statements. The Annual Financial Statements have been examined by the municipality's external auditors and their report is presented separately.

The Annual Financial Statements set out on pages 5 to 71, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Accounting Officer
Mr. B.A. Mnguni

Wednesday, 31 August 2016

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2016.

Shared Audit and Performance Committee members and attendance

The shared audit and performance committee (Xhariep District) consists of four members listed hereunder and should meet on a regular basis per annum as per its approved terms of reference. During the current year three meetings were held.

Name of member	Number of meetings attended
Mr. M.M. Segalo (Chairperson)	3
Mr. V. Vapi	3
Ms. S. Makhathini	3
Ms. R.T. Mocwaledi	1

Audit committee responsibility

The shared audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA and Treasury Regulation 3.1.

The shared audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

Evaluation of Annual Financial Statements

The audit committee has:

- reviewed and discussed the audited Annual Financial Statements to be included in the Annual Report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed the entities compliance with legal and regulatory provisions; and
- reviewed significant adjustments resulting from the audit.

The audit committee concurs with and accepts the Auditor-General of South Africa's report to the Annual Financial Statements, and are of the opinion that the Audited Annual Financial Statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

Letsemeng Local Municipality is a local government institution in Koffiefontein, Free State Province. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

The operating results for the year were [pleasing/satisfactory/disappointing] for the following reasons. The financial position of the municipality is [describe].

Net deficit of the municipality was R 27 189 053 (2015: deficit R 10 259 412).

2. Going concern

Management experienced cash flow difficulties during the financial period. Management considered the following matters relating to the going concern .
(i) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(ii) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contigent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government will continue to find the operations of the Municipality through the provision of the equitable share,additionally the accounting officer will continue to tightly manage the cashflow ofthe Municipality and where necessary procure funding for the ongoing operations for the municipality.

3. Subsequent events

The accounting officer is not aware of any matters or circumstances arising since the end of the financial year that may impact the Annual Financial Statements.

4. Accounting policies

The Annual Financial Statements prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations issued by the Accounting Standards Board and Accounting Practices Board.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr B.A Mnguni	South African

Accounting Officer's Report

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this committment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conducts ("the Code") laid out in the King Report. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitors the municipality's compliance with the code on a regular basis.

Management meetings

The accounting officer meets Section 56 managers at least on a monthly basis.

Internal audit

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003.

7. Bankers

The municipality's bankers did not change during the year.

8. Auditors

Auditor General South Africa will continue in office for the next financial period.

9. Non compliance with applicable legislation

Significant non-compliance with various legislations have been properly disclosed in the notes to the financial statements.

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	4	4 164 855	7 118 575
Consumer debtors	5	25 549 069	12 754 103
Receivables from non-exchange transactions	6	2 773 322	5 628 679
VAT receivable	7	593 816	9 738 416
Employee benefit asset	16	141 296	-
Prepayments		1 528 351	1 528 349
Cash and cash equivalents	8	2 064 383	3 194 564
		36 815 092	**39 962 686**
Non-Current Assets			
Property, plant and equipment	9	594 048 307	507 204 894
Intangible assets	10	206 591	305 840
Heritage assets	11	163 430	(3 440 882)
Investments	12	116 794	6 635 193
		594 535 122	**510 705 045**
Total Assets		**631 350 214**	**550 667 731**
Liabilities			
Current Liabilities			
Finance lease obligation	13	171 790	128 974
Payables from exchange transactions	14	13 756 146	9 483 233
Consumer deposits	15	774 006	721 782
Employee benefit obligation	16	-	524 203
Unspent conditional grants and receipts	17	15 767 780	11 902 940
		30 469 722	**22 761 132**
Non-Current Liabilities			
Finance lease obligation	13	79 410	214 628
Employee benefit obligation	16	1 687 360	5 423 564
Provisions	18	10 890 406	1 210 649
		12 657 176	**6 848 841**
Total Liabilities		**43 126 898**	**29 609 973**
Net Assets		**588 223 316**	**521 057 758**
Accumulated surplus	19	588 223 316	521 057 758

* See Note 2 & 43

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
REVENUE			
Revenue from exchange transactions			
Service charges	21	37 747 269	31 316 127
Rental of facilities and equipment	22	504 953	245 348
Interest received (trading)		7 471 354	4 743 169
Interest received - investment	25	231 731	1 849 970
Licences and permits		(218 107)	-
Recoveries		-	3 517 136
Other income	24	743 949	2 554 325
Dividends received	25	6 866	4 515
Total revenue from exchange transactions		**46 488 015**	**44 230 590**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	16 441 610	14 563 814
Transfer revenue			
Government grants & subsidies	27	70 705 904	72 362 386
Fines, Penalties and Forfeits		89 214	4 500
Total revenue from non-exchange transactions		**87 236 728**	**86 930 700**
Total revenue	20	**133 724 743**	**131 161 290**
EXPENDITURE			
Employee related costs	28	(45 410 125)	(38 844 544)
Remuneration of councillors	29	(3 644 162)	(3 143 467)
Administration	30	439	(174 019)
Depreciation and amortisation	31	(29 836 225)	(28 593 065)
Impairment loss	32	(1 273 211)	(680 523)
Finance costs	33	(1 522 022)	(1 427 821)
Debt Impairment	34	(15 220 126)	(13 941 921)
Repairs and maintenance		(1 555 925)	(3 711 456)
Bulk purchases	35	(24 218 864)	(22 604 782)
General Expenses	36	(39 161 495)	(28 948 940)
Total expenditure		**(161 841 716)**	**(142 070 538)**
Operating deficit		**(28 116 973)**	**(10 909 248)**
Fair value adjustments	37	927 920	449 413
Actuarial gains/losses	16	-	200 423
		927 920	**649 836**
Deficit for the year		**(27 189 053)**	**(10 259 412)**

* See Note 2 & 43

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	**531 317 170**	**531 317 170**
Changes in net assets		
Surplus for the year	(10 259 412)	(10 259 412)
Total changes	(10 259 412)	(10 259 412)
Opening balance as previously reported	521 066 755	521 066 755
Adjustments		
Prior year adjustments	94 345 614	94 345 614
Restated* Balance at 01 July 2015 as restated*	**615 412 369**	**615 412 369**
Changes in net assets		
Surplus for the year	(27 189 053)	(27 189 053)
Total changes	(27 189 053)	(27 189 053)
Balance at 30 June 2016	**588 223 316**	**588 223 316**
Note(s)		

* See Note 2 & 43

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property Rates		16 441 610	12 144 915
Sale of goods and services		37 747 269	7 410 747
Grants		70 705 904	70 552 000
Interest income		231 731	1 849 970
Dividends received		6 866	4 515
Other receipts		-	4 610 675
Interest income - trading		8 591 363	4 743 169
Other cash item		40 109 406	-
		173 834 149	101 315 991
Payments			
Employee costs		(49 054 287)	(41 791 346)
Suppliers		-	(63 646 292)
Finance costs		(1 522 022)	(1 427 821)
		(50 576 309)	(106 865 459)
Net cash flows from operating activities	39	**123 257 840**	**(5 549 468)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(112 877 274)	(15 843 644)
Proceeds from sale of property, plant and equipment	9	-	1 542 936
Purchase of other intangible assets	10	(14 675)	(11 614)
Proceeds from sale of heritage assets	11	(3 651 762)	-
Proceeds from sale of financial assets		(10 189 299)	8 117 002
Other cash item		-	5 787
Net cash flows from investing activities		**(126 733 010)**	**(6 189 533)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments		(92 402)	(99 269)
Other cash item		2 437 391	-
Net cash flows from financing activities		**2 344 989**	**(99 269)**
Net increase/(decrease) in cash and cash equivalents		**(1 130 181)**	**(11 838 270)**
Cash and cash equivalents at the beginning of the year		3 194 564	15 032 834
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	**2 064 383**	**3 194 564**

* See Note 2 & 43

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	49 324 000	(7 274 000)	**42 050 000**	37 747 269	**(4 302 731)**	1
Rental of facilities and equipment	478 000	-	**478 000**	504 953	**26 953**	
Interest on oustanding receivables	-	-	-	7 471 354	**7 471 354**	2
Licences and permits	-	-	-	(218 107)	**(218 107)**	
Other income	9 891 000	(6 167 000)	**3 724 000**	743 949	**(2 980 051)**	3
Interest received - investment	3 710 000	(2 832 000)	**878 000**	231 731	**(646 269)**	4
Dividends received	5 000	(1 000)	**4 000**	6 866	**2 866**	5
Total revenue from exchange transactions	**63 408 000**	**(16 274 000)**	**47 134 000**	**46 488 015**	**(645 985)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	15 946 000	(1 110 000)	**14 836 000**	16 441 610	**1 605 610**	6
Licences and permits	6 000	-	**6 000**	-	**(6 000)**	7
Transfer revenue						
Government grants & subsidies	53 514 000	-	**53 514 000**	70 705 904	**17 191 904**	8
Fines, Penalties and Forfeits	53 000	-	**53 000**	89 214	**36 214**	9
Total revenue from non-exchange transactions	**69 519 000**	**(1 110 000)**	**68 409 000**	**87 236 728**	**18 827 728**	
Total revenue	**132 927 000**	**(17 384 000)**	**115 543 000**	**133 724 743**	**18 181 743**	
Expenditure						
Employee costs	(40 667 000)	(1 273 000)	**(41 940 000)**	(45 410 125)	**(3 470 125)**	
Remuneration of councillors	(3 266 000)	(112 000)	**(3 378 000)**	(3 644 162)	**(266 162)**	
Administration	-	-	-	439	**439**	10
Debt impairment	(5 678 000)	-	**(5 678 000)**	-	**5 678 000**	11
Depreciation and amortisation	(19 000 000)	5 225 000	**(13 775 000)**	(29 836 225)	**(16 061 225)**	12
Impairment loss/ Reversal of impairments	-	-	-	(1 273 211)	**(1 273 211)**	
Finance costs	-	(50 000)	**(50 000)**	(1 522 022)	**(1 472 022)**	13
Bad debts written off	-	-	-	(15 220 126)	**(15 220 126)**	
Repairs and maintenance	-	-	-	(1 555 925)	**(1 555 925)**	14
Bulk purchases	(27 982 000)	3 200 000	**(24 782 000)**	(24 218 864)	**563 136**	15
Contracted Services	(1 000 000)	(1 296 000)	**(2 296 000)**	-	**2 296 000**	16
General Expenses	(35 044 000)	11 400 000	**(23 644 000)**	(39 161 495)	**(15 517 495)**	17
Total expenditure	**(132 637 000)**	**17 094 000**	**(115 543 000)**	**(161 841 716)**	**(46 298 716)**	
Operating deficit	**290 000**	**(290 000)**	-	**(28 116 973)**	**(28 116 973)**	
Fair value adjustments	-	-	-	927 920	**927 920**	
Surplus/(Deficit) for the year	**290 000**	**(290 000)**	-	**(27 189 053)**	**(27 189 053)**	
	290 000	**(290 000)**	-	**(27 189 053)**	**(27 189 053)**	

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	396 000	-	**396 000**	4 164 855	**3 768 855**	18
Receivables from non-exchange transactions	-	-	-	2 773 322	**2 773 322**	19
VAT receivable	-	-	-	593 816	**593 816**	
Employee benefit asset	-	-	-	141 296	**141 296**	
Prepayments	-	-	-	1 528 351	**1 528 351**	21
Consumer debtors	745 000	-	**745 000**	25 549 069	**24 804 069**	19
Current portion of long term receivables	29 366 000	-	**29 366 000**	-	**(29 366 000)**	19
Cash and cash equivalents	15 935 000	-	**15 935 000**	2 064 383	**(13 870 617)**	22
	46 442 000	**-**	**46 442 000**	**36 815 092**	**(9 626 908)**	
Non-Current Assets						
Property, plant and equipment	612 614 000	-	**612 614 000**	594 048 307	**(18 565 693)**	
Intangible assets	202 000	-	**202 000**	206 591	**4 591**	23
Heritage assets	-	-	-	163 430	**163 430**	24
Investment property	19 514 000	-	**19 514 000**	-	**(19 514 000)**	
Investments	-	-	-	116 794	**116 794**	25
	632 330 000	**-**	**632 330 000**	**594 535 122**	**(37 794 878)**	
Total Assets	**678 772 000**	**-**	**678 772 000**	**631 350 214**	**(47 421 786)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	171 790	**171 790**	26
Payables from exchange transactions	10 270 000	-	**10 270 000**	13 756 141	**3 486 141**	27
Consumer deposits	790 000	-	**790 000**	774 006	**(15 994)**	
Unspent conditional grants and receipts	-	-	-	15 767 780	**15 767 780**	29
Provisions	567 000	-	**567 000**	-	**(567 000)**	
	11 627 000	**-**	**11 627 000**	**30 469 717**	**18 842 717**	
Non-Current Liabilities						
Finance lease obligation	-	-	-	79 410	**79 410**	26
Employee benefit obligation	-	-	-	1 687 360	**1 687 360**	28
Provisions	8 663 000	-	**8 663 000**	10 890 406	**2 227 406**	29
	8 663 000	**-**	**8 663 000**	**12 657 176**	**3 994 176**	
Total Liabilities	**20 290 000**	**-**	**20 290 000**	**43 126 893**	**22 836 893**	
Net Assets	**658 482 000**	**-**	**658 482 000**	**588 223 321**	**(70 258 679)**	

Letsemeng Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	658 482 000	-	**658 482 000**	588 223 321	**(70 258 679)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	65 270 000	(8 384 000)	**56 886 000**	-	**(56 886 000)**	
Grants	116 011 000	(43 852 000)	**72 159 000**	-	**(72 159 000)**	
Interest income	3 710 000	(2 832 000)	**878 000**	-	**(878 000)**	
Dividends received	5 000	(1 000)	**4 000**	-	**(4 000)**	
Other revenue	10 428 000	(6 167 000)	**4 261 000**	-	**(4 261 000)**	
	195 424 000	**(61 236 000)**	**134 188 000**	-	**(134 188 000)**	
Payments						
Employee costs	(132 637 000)	17 144 000	**(115 493 000)**	-	**115 493 000**	
Suppliers	-	(50 000)	**(50 000)**	-	**50 000**	
	(132 637 000)	**17 094 000**	**(115 543 000)**	-	**115 543 000**	
Net cash flows from operating activities	**62 787 000**	**(44 142 000)**	**18 645 000**	-	**(18 645 000)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(62 497 000)	43 852 000	**(18 645 000)**	-	**18 645 000**	
Cash flows from financing activities						
Increase (decrease) in conumer deposits	(713 000)	-	**(713 000)**	-	**713 000**	
Net increase/(decrease) in cash and cash equivalents	290 000	(290 000)	-	-	-	
Cash and cash equivalents at the beginning of the year	15 900 000	-	**15 900 000**	-	**(15 900 000)**	
Cash and cash equivalents at the end of the year	**16 190 000**	**(290 000)**	**15 900 000**	-	**(15 900 000)**	

1. Sevices charges were lower than the amount budgeted as a result of more work having being done to meet the indigents who are not charged for full services provided.
2. The Municipality did not budget for interest on outstanding receivables.
3. Property Rates are lower than budgeted due to the demand of the community particularly the indigent whos requirements where carefully considered.
4. Depreciation and amortisation - are significantly huge due to changes in estimated uselife lives combined with asset acquisitions.
5. Finance costs - are significantly higher in relation to budget and are larger caused by interest arising on landfill sites.
6. Inventories - are higher than budgeted amounts due to extensive work having being done with respect to valuation of closing stock.
7. Cash & cash equivalents - were lower than budgeted figures due to residents not being able to service their obligation timeously.
8. Unspent conditional grants are high due to the inability of the municipality to implement conditional grants due to cash flow challenges.
9. Long term provisions were high due to increased estimates for the rehabiliation of landfill sites.

Accounting Policies

1. Presentation of Annual Financial Statements

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these Annual Financial Statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These Annual Financial Statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These Annual Financial Statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

The Municipality follows a policy that is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal Systems Act 2000 as amended and other related legislation.

Before any debt is written off, there must be proof that the debt has become irrecoverable.

Bad debts write offs must be considered in terms of cost-benefit analysis: meaning when it becomes too costly to recover and the chances of collecting the debts are slim, a write off should be considered.

Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalization of any final readings and other administrative costs results in a balance one hundred Rand (R100) or less, such account must be forwarded once to the consumer for payment.

The Accounting Officer will, after thorough review of any applicants in terms of this Policy, be delegated to write off any amounts, outstanding for more than 365 days to the maximum of:

1) In the case of a household consumer an amount of R100.00 (excluding interest and penalties) per submission; and
2) In the case of a household consumer an amount of R 200.00 (excuding interest and penalties) per submission.

Provision for bad debts on municipal accounts will therefore be calculated as follows:

1) Up to 90 days debt is not considered bad,
2) 91-120 days 25% of the debt is considered bad,
3) 121-365 days 50% of the debt is considered bad and,
4) 365 days and more, 100% of the debt is considered bad .

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or for
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings		
• Buildings and imprvements	Straight line	5 - 60

1.5 Property, plant and equipment (continued)

Other Assets		
• Office Equipment	Straight line	3 - 7
• IT Equipment	Straight line	3 - 5
• Plant and machinery	Straight line	5 - 25
• Motor Vehicles - Specialised vehicles	Straight line	10 - 15
• Motor vehicles - Other vehicles	Straight line	3
• Bins and containers	Straight line	5
• Furniture and fixtures	Straight line	7 - 10
Community		
• Buildings	Straight line	30
• Recreational Facilities	Straight line	20 - 30
• Security	Straight line	3 - 5
Infrastructure		
• Roads and Paving	Straight line	3 - 80
• Sewerage / Solid waste	Straight line	5 - 50
• Water	Straight line	5 - 50
• Electricity		10 - 50
• Landfill sites		5 - 25

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

1.8 Heritage assets (continued)

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

1.9 Financial instruments (continued)

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Accounting Policies

1.9 Financial instruments (continued)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.9 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents- Call deposits	Financial asset measured at amortised cost
Cash and cash equivalents- Bank	Financial asset measured at amortised cost
Cash and cash equivalents- Cash	Financial asset measured at fair value
Current portion of Non-current investments	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Current portion of long term liabilities	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Tax

VAT

The minicipality accounts for Value Added Tax on the Payment Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991)

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting Policies

1.11 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.12 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

1.14 Impairment of non-cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.15 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality has opted to treat its provision for leave pay and bonuses as accruals

1.15 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

A Defined Contribution Plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans.

Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit plans

A Defined Benefit Plan is a post-employment benefit plan other than a defined contribution plan.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees.

Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.15 Employee benefits (continued)

Post- retirement Health Care Benefits

The entity provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Independent qualified actuaries carry out valuations of these obligations.

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the Projected Unit Credit Method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

1.16 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.18 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.19 Revenue from non-exchange transactions (continued)

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.24 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the provincial sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

1.27 Events after reporting date (continued)

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 103: Heritage Assets

Heritage Assets

During the year, the municipality changed its accounting policy with respect to the treatment of Heritage Assets. In order to conform with the benchmark treatment in of GRAP13 – Heritage Assets. The municipality have retrospectively recognised the full net assets in the Annual Financial Statements.

The comparative amounts have been restated.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2015 is as follows:

Statement of financial position

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2016	The impact of the amendment is not material.

3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP32: Service Concession Arrangements: Grantor	01 April 2016	
• GRAP108: Statutory Receivables	01 April 2016	The impact of the amendment is not material.
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	The impact of the amendment is not material.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Inventories

Maintenance materials	4 155 290	7 107 948
Water	9 565	10 627
	4 164 855	**7 118 575**

Inventories are held for own use and measured at the lower of cost and net realisable value. No write downs of Inventory to Net Realisable Value were required in the current period.

Inventory pledged as security

No Inventory was pledged as security for overdraft facilities of the municipality.

5. Consumer debtors

Gross balances		
Electricity	3 945 413	3 610 456
Water	16 366 580	14 298 139
Sewerage	24 084 550	14 322 235
Refuse	21 095 648	13 993 327
Other	1 259 765	890 185
	66 751 956	**47 114 342**
Less: Allowance for impairment		
Electricity	(2 771 369)	(2 150 005)
Water	(17 086 994)	(10 725 054)
Sewerage	(7 060 035)	(10 425 504)
Refuse	(13 383 925)	(10 262 134)
Other	(900 564)	(797 542)
	(41 202 887)	**(34 360 239)**
Net balance		
Electricity	1 174 044	1 460 451
Water	(720 414)	3 573 085
Sewerage	17 024 515	3 896 731
Refuse	7 711 723	3 731 193
Other	359 201	92 643
	25 549 069	**12 754 103**
Electricity		
Current (0 -30 days)	76 995	361 254
31 - 60 days	64 248	232 878
61 - 90 days	38 472	91 572
>91 days	994 329	774 747
	1 174 044	**1 460 451**
Water		
Current (0 -30 days)	155 132	606 161
31 - 60 days	146 808	407 944
61 - 90 days	146 902	347 010
>91 days	4 252 836	2 211 970
	4 701 678	**3 573 085**

Figures in Rand	2016	2015

5. Consumer debtors (continued)

Sewerage		
Current (0 -30 days)	164 741	516 645
31 - 60 days	156 859	509 452
61 - 90 days	149 102	502 910
> 91 days	4 548 733	2 367 724
	5 019 435	**3 896 731**

Refuse		
Current (0 -30 days)	147 431	489 271
31 - 60 days	142 235	481 917
61 - 90 days	138 839	473 797
>91 days	4 291 098	2 286 208
	4 719 603	**3 731 193**

Other		
Current (0 -30 days)	69 644	11 169
31 - 60 days	4 678	12 075
61 - 90 days	4 387	11 153
> 91days	266 736	58 246
	345 445	**92 643**

Consumer debtors - other services include outstanding debtors for various other services, e.g. Arrangements, Deposits, Housing, Interest, Rentals and Sundry services like Garden Refuse, Sanitation bags, etc.

Consumer debtors pledged as security

Non of the Consumer debtors have been pledged as security for the municipality's financial liabilities.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R - (2015: R 11 371 650) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3 350 439	1 644 267
2 months past due	2 942 455	1 426 442
3 months past due	2 927 309	8 300 941

Reconciliation of allowance for impairment of consumer debtors

Opening balance	47 577 240	32 313 735
Allowance for impairment	23 822 355	14 178 246
Amounts written off as uncollectable	478 161	1 085 259
	71 877 756	**47 577 240**

In determining the recoverability of Consumer debtors, the municipality has placed strong emphsis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for impairment. Refer to details in the accounting policy for further details.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

6. Receivables from non-exchange transactions

Consumer debtors - Rates	24 494 603	18 845 680
Impairment	(21 721 281)	(13 217 001)
	2 773 322	**5 628 679**

The municipality does not hold deposits or other security for its Receivables.

Non of the Receivables have been pledged as security for the municipality's financial liabilities.

Receivables from non-exchange transactions past due but not impaired

At 30 June 2016, R (2015: R 64 955) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	783 497	892 272
2 months past due	746 727	849 703
3 months past due	843 817	2 815 480

Reconciliation of allowance for impairment

Balance at beginning of the year	13 217 001	8 714 958
Provision for impairment	5 845 327	4 437 088
Amounts written-off as uncollectable	89 337	64 955
	19 151 665	**13 217 001**

The Provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the provision for impairment.

7. VAT receivable

VAT	593 816	9 738 416

VAT is payable on the receipt basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 495	1 295
Bank balances	2 062 888	3 193 269
	2 064 383	**3 194 564**

8. Consumer debtors disclosure (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
First National Bank - Current Account Number 527115689918	632 230	3 077 560	632 230	3 077 560
ABSA Bank - Current Account Number 4048034774	97 496	119 035	97 496	119 035
Total	**729 726**	**3 196 595**	**729 726**	**3 196 595**

The municipality maintains one cash book for its primary bank account with First National Bank and the ABSA bank account.

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

9. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	81 467 550	-	81 467 550	83 551 550	-	83 551 550
Buildings	56 183 188	(13 308 218)	42 874 970	71 356 174	(26 801 999)	44 554 175
Infrastructure	933 557 613	(565 084 716)	368 472 897	757 771 641	(387 568 253)	370 203 388
Other property, plant and equipment	106 525 084	(5 316 274)	101 208 810	13 180 358	(4 567 618)	8 612 740
Leased Assets	400 779	(376 699)	24 080	400 779	(117 738)	283 041
Total	**1 178 134 214**	**(584 085 907)**	**594 048 307**	**926 260 502**	**(419 055 608)**	**507 204 894**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Adjustment	Transfers	Depreciation	Total
Land	83 551 550	-	-	(2 084 000)	-	81 467 550
Buildings	44 554 175	361 330	-	(984 279)	(1 056 256)	42 874 970
Infrastructure	370 203 388	18 016 865	6 035 480	947 368	(26 730 204)	368 472 897
Other property, plant and equipment	8 612 740	93 551 711	-	-	(955 641)	101 208 810
Work in progress	-	947 368	-	(947 368)	-	-
Leased Assets	283 041	-	-	-	(258 961)	24 080
	507 204 894	**112 877 274**	**6 035 480**	**(3 068 279)**	**(29 001 062)**	**594 048 307**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Change in discount factor - Landfill sites	Depreciation	Impairment loss	Depreciation on Disposal	Total
Land	83 551 550	-	-	-	-	-	-	-	83 551 550
Buildings	45 610 431	-	-	-	-	(1 056 256)	-	-	44 554 175
Infrastructure	389 587 207	-	-	7 346 385	(142 833)	(26 587 371)	-	-	370 203 388
Other property, plant and equipment	9 776 091	637 485	(1 486 375)	-	-	(1 139 436)	(43 937)	868 912	8 612 740
Work in progress	15 242 400	15 224 878	-	(30 467 278)	-	-	-	-	-
Leased assets	30 204	382 060	(56 561)	-	-	(110 100)	-	37 438	283 041
	543 797 883	**16 244 423**	**(1 542 936)**	**(23 120 893)**	**(142 833)**	**(28 893 163)**	**(43 937)**	**906 350**	**507 204 894**

Pledged as security

None of the tangible assets were pledged as security during the current year and previous year:

Leased assets- Office equipment	-	283 041

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2016

	Included within buildings	Included within infrastructure	Included within Other PPE	Total
Opening balance	10 537 853	10 159 152	2 423 888	23 120 893
Additions/capital expenditure	382 859	10 735 769	-	11 118 628
Work in progress completed during the year	-	(702 415)	-	(702 415)
	10 920 712	**20 192 506**	**2 423 888**	**33 537 106**

Reconciliation of Work-in-Progress 2015

	Included within buildings	Included within infrastructure	Included within Other PPE	Total
Opening balance	6 947 639	5 870 873	2 423 888	15 242 400
Additions/capital expenditure	3 590 214	11 634 664	-	15 224 878
Work in progress completed during the year	-	(7 346 385)	-	(7 346 385)
	10 537 853	**10 159 152**	**2 423 888**	**23 120 893**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 025 165	(818 574)	206 591	964 179	(658 339)	305 840

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	305 840	14 675	(113 924)	206 591

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Transfers received	Other changes, movements	Amortisation	Total
Computer software, other	450 787	11 614	(305 839)	305 840	(156 562)	305 840

Pledged as security

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality. :

11. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	(85 328)	-	(85 328)	258 570	-	258 570
Historical buildings	248 758	-	248 758	(3 699 452)	-	(3 699 452)
Total	**163 430**	**-**	**163 430**	**(3 440 882)**	**-**	**(3 440 882)**

Reconciliation of heritage assets 2016

	Opening balance	Disposals	Revaluation increase/(decrease)	Total
Art Collections, antiquities and exhibits	258 570	(296 448)	(47 450)	(85 328)
Historical buildings	(3 699 452)	3 948 210	-	248 758
	(3 440 882)	**3 651 762**	**(47 450)**	**163 430**

Reconciliation of heritage assets 2015

	Opening balance	Transfers	Total
Mayor's medallion	258 570	-	258 570
Historical buildings	3 670 898	(7 370 350)	(3 699 452)
	3 929 468	**(7 370 350)**	**(3 440 882)**

Reconciliation of Heritage Assets 2014	Cost/Valuation	Adjustment	Total
Mayors Medallion	258 570	-	258 570
Historical Buildings	3 670 898	(3 670 898)	-
	3 929 468	**(3 670 898)**	**258 570**

Historical Buildings - This adjustment relates to a correction of an error. Certain properties were erroneously included in the Municipality's Heritage assets

12. Investments

	2016	2015
Designated at fair value		
Unlisted shares Non-controlling interest of 3600 (2015: 3600) shares in Senwes Limited, 4990 (2015: 4990) shares in Senwes Beleggings and 4000 (2015: 4000) shares in OVK, which are recognised at fair value.	120 342	(3 549 869)
At amortised cost		
Other financial assets Money Market Investments These are Money Market instruments placed with the local financial institutions. FNB account number 62273244849. Average interest rate for the period 4.25% (2015: 4.25%).	(3 548)	10 185 062
Total investments	**116 794**	**6 635 193**

Figures in Rand	2016	2015

12. Investments (continued)

Non-current assets		
Designated at fair value	120 342	(3 549 869)
At amortised cost	(3 548)	10 185 062
	116 794	**6 635 193**

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Investment in OVK shares These shares are valued as per valuation obtained from the OVK Transfer Secretaries as at 30 June each year.	54 402	53 400
Investment in Senwes Beleggings and Senwes Limited These shares are valued as per valuation obtained from the Senwes Transfer Secretaries as at 30 June each year.	65 940	67 630
	120 342	**121 030**

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Unlisted shares	120 342	121 030
Level 2		
Money Market Investments	-	10 185 062
	120 342	**10 306 092**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Finance lease obligation

Minimum lease payments due		
- within one year	225 122	270 105
- in second to fifth year inclusive	147 264	281 709
	372 386	551 814
less: future finance charges	(111 362)	(208 211)
Present value of minimum lease payments	**261 024**	**343 603**

Present value of minimum lease payments due		
- within one year	181 368	128 974
- in second to fifth year inclusive	79 656	214 629
	261 024	**343 603**

Non-current liabilities	79 410	214 628
Current liabilities	171 790	128 974
	251 200	**343 602**

It is municipality policy to lease certain copiers and cellphones under finance leases.

The average lease term was 3 years for copiers, 2 years for cellphones and the average effective borrowing rate was -% (2015: 9%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

14. Payables from exchange transactions

Payments received in advanced	508 814	508 814
Employee related liabilities	5 367 633	733 207
Unknown deposits	7 524	2 532 784
Accrued leave pay	2 685 118	2 217 401
Accrued bonus	1 266 860	759 407
Accrued expenses	5 520 697	2 501 643
Other Creditors #3	(2 471 430)	-
Deferred income- prepaid electricity	83 077	83 077
Retention monies	787 853	146 900
	13 756 146	**9 483 233**

15. Consumer deposits

Electricity	204 013	217 346
Water	569 993	504 436
	774 006	**721 782**

Figures in Rand	2016	2015

16. Employee benefit obligations

Defined benefit plan

The municipality makes monthly contributions for health care arrangements to the Hosmed, LA Health and Key Health Medical Aid Schemes.

The members of the Post-employment Health Care Benefit Plan are made up as follows: In-service Members (Employees) 1,

In-service Non-members (Employees) 3 and Continuation Members (Retirees, widowers and orphans) 14.

Long Service Awards Liability

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is every 5 years of continuous service, from 5years of service to 45 years of service, inclusive. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr Chanan Weiss BSc FFA, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Current-service Cost for the year ending 30 June 2015 is estimated to be R251 665, whereas the cost for the ensuing year is estimated to be R (30 June 2014: R251 665 and R376 662 respectively).

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr Chanan Weiss BSc FFA, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(4 136 780)	(4 303 285)
Present value of the defined benefit obligation-partly or wholly funded	(2 010 937)	(1 644 482)
	(6 147 717)	**(5 947 767)**
Current assets	141 296	-
Non-current liabilities	(1 687 360)	(5 423 564)
Current liabilities	-	(524 203)
	(1 546 064)	**(5 947 767)**

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

Figures in Rand	2016	2015

16. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2016	2015
Opening balance	4 303 285	4 161 989
Net expense recognised in the statement of financial performance	(166 505)	141 296
	4 136 780	**4 303 285**

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	19 059	19 010
Interest cost	337 747	326 433
Actuarial (gains) losses	(147 423)	147 009
Benefits paid	(375 888)	(351 156)
	(166 505)	**141 296**

Changes in the present value of the Long Service Awards obligation are as follows:

	2016	2015
Opening balance	1 644 482	1 789 537
Net expense recognised in the statement of financial position	366 455	(145 055)
	2 010 937	**1 644 482**

Net expenses recognised in the statement of financial performance: Long Service Awards Obligations:

	2016	2015
Current service cost	376 662	251 665
Interest cost	127 179	134 931
Acturial gains(losses)	10 929	(347 432)
Benefits paid	(148 315)	(184 219)
	366 455	**(145 055)**

The municipality expects to contribute R 553 187 to its defined benefit plans in the following financial year.

Key assumptions used

Assumptions used at the reporting date:

	2016	2015
Actual return on plan assets	8.76 %	8.20 %
Discount rates used	8.55 %	8.09 %
Expected rate of return on assets	7.92 %	7.49 %
Expected rate of return on reimbursement rights	7.20 %	7.14 %
Actual return on reimbursement rights	0.78 %	0.66 %
Medical cost trend rates	1.26 %	0.89 %

Other assumptions

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation - Post - retirement Health Care Liability	4 136 780	4 303 000	4 162 000	3 938 000	6 404 000
Defined benefit obligation - Long service award Liability	2 010 937	1 644 482	1 789 537	1 543 000	1 366 000
Experience adjustments on plan liabilities -Post retirement Health Care Liability	147 423	205 000	350 000	217 000	(146 000)
Experience adjustments on plan liabilities - Long service award liability	10 929	(332 174)	(55 730)	(161)	24

Figures in Rand	2016	2015

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2016	2015
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	1 613 772	1 129 781
Deaprtment of Roads and Transport Grant	1 416 404	1 416 404
Department of Water Affairs Grant	12 507 604	9 241 755
Department of Health Grant	230 000	115 000
	15 767 780	**11 902 940**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 27 for reconciliation of grants from National/Provincial Government.

The Unspent Conditional Grants and Receipts are invested in ring-fenced investment accounts until utilised.

18. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	1 210 649	9 679 757	10 890 406

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	7 298 282	508 089	-	(6 595 722)	1 210 649

The provision was based on 100% of the landfill site areas as the total area is used for dumping of waste. Dumping is not limited to a certain portion of landfill sites. The entire site will have to be rehabilitated, therefore the provision was based on 100%.

	2016	2015
Jacobsdal	3 922 316	1 494 391
Koffiefontein	-	837 579
Luckhoff	-	873 822
Oppermansdorp	-	903 016
Petrusburg	-	1 000 405
	3 922 316	**5 109 213**

19. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2016

	Donations and public contributions	Total
Opening balance	2 022 113	2 022 113
Transfer to capital replacement reserve	(12 000)	(12 000)
	2 010 113	**2 010 113**

Figures in Rand	2016	2015

19. Accumulated surplus (continued)

Ring-fenced internal funds and reserves within accumulated surplus - 2015

	Donations and public contributions	Total
Opening balance	2 022 113	2 022 113

20. Revenue

	2016	2015
Service charges	37 747 269	31 316 127
Rental of facilities and equipment	504 953	245 348
Interest received (trading)	7 471 354	4 743 169
Licences and permits	(218 107)	-
Recoveries	-	3 517 136
Other income	743 949	2 554 325
Interest received - investment	231 731	1 849 970
Dividends received	6 866	4 515
Property rates	16 441 610	14 563 814
Government grants & subsidies	70 705 904	72 362 386
Fines, Penalties and Forfeits	89 214	4 500
	133 724 743	**131 161 290**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	37 747 269	31 316 127
Rental of facilities and equipment	504 953	245 348
Interest received (trading)	7 471 354	4 743 169
Licences and permits	(218 107)	-
Recoveries	-	3 517 136
Other income	743 949	2 554 325
Interest received - investment	231 731	1 849 970
Dividends received	6 866	4 515
	46 488 015	**44 230 590**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	16 441 610	14 563 814
Transfer revenue		
Government grants & subsidies	70 705 904	72 362 386
Fines, Penalties and Forfeits	89 214	4 500
	87 236 728	**86 930 700**

21. Service charges

	2016	2015
Sale of electricity	15 106 640	14 164 395
Sale of water	8 107 101	7 039 147
Sewerage and sanitation charges	6 737 877	1 804 030
Refuse removal	7 795 651	8 308 555
	37 747 269	**31 316 127**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

22. Rental of facilities and equipment

Premises		
Premises	474 404	245 348
Venue hire	30 428	-
	504 832	**245 348**
Facilities and equipment		
Rental of equipment	121	-
	504 953	**245 348**

23. Other revenue

Recovery	-	3 517 136
Other income	743 949	2 554 325
	743 949	**6 071 461**

24. Other income

Other income	743 949	2 554 325

25. Investment revenue

Dividend revenue		
Dividends received	6 866	4 515
Interest revenue		
Interest received on investment	231 731	1 849 970
	238 597	**1 854 485**

26. Property rates

Rates received

Residential	16 441 610	14 563 814

Valuations

Residential	898 759 608	543 576 000
Commercial	178 619 440	163 187 000
State	60 069 875	87 817 000
Municipal	23 457 915	368 086 000
Small holdings and farms	1 962 730 449	1 671 639 000
Other	10 132 000	52 579 000
	3 133 769 287	**2 886 884 000**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

27. Government grants and subsidies

Operating grants		
Equitable share	49 784 145	51 425 018
Capital grants		
Financial Management Grant (FMG)	1 065 769	1 800 000
MSIG	930 000	934 000
DWA	(252 009)	1 800 064
MIG	16 978 000	13 638 829
ACIP	1 199 999	1 754 475
EPWP	1 000 000	1 010 000
	20 921 759	**20 937 368**
	70 705 904	**72 362 386**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	21 907 999	21 189 377
Unconditional grants received	49 784 000	50 185 000
	71 691 999	**71 374 377**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 172 (2015: R 166), based on the monthly billing which is funded from the grant. All residential households receive 6 kl water and 50kWh electricity (indigents only) free every month. No amount was withheld during the year.

National : MIG funds

Balance unspent at beginning of year	2 369 799	735 628
Current-year receipts	16 978 000	16 009 000
Conditions met - transferred to revenue: capital expenses	(14 101 168)	(13 638 829)
Amount off set against equitable share	-	(736 000)
	5 246 631	**2 369 799**

Conditions still to be met - remain liabilities (see note 17).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. An amount of R 1 245 000 was withheld during the current year.

Provincial : Roads and Transport Grant

Balance unspent at beginning of year	1 416 404	1 416 404

Conditions still to be met - remain liabilities (see note 17).

The grant was used to finance the upgrading and construction of the street network within the municipal boundaries. No amount was withheld during the year..

National: Department Water Affairs (DWA) - Other Capital Projects

Balance unspent at beginning of year	8 989 746	11 041 819

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

27. Government grants and subsidies (continued)

	2016	2015
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(2 052 073)
	8 989 746	**8 989 746**

Conditions still to be met - remain liabilities (see note 17).

To facilitate the planning, acceleration and implementation of various projects that will insure water supply to communities identified as not receiving a basic water supply service. No amount was withheld during the year.

Provincial: Health Subsidies

	2016	2015
Balance unspent at beginning of year	115 000	115 000

Conditions still to be met - remain liabilities (see note 17).

This grant has been used to fund environmental health care services, which services are in a process of being transferred to Provincial Government. This grant will then fall away. No funds have been withheld.

Provincial : Accelerated Community Development Programme

	2016	2015
Balance unspent at beginning of year	-	404 475
Current-year receipts	1 199 999	1 350 000
Conditions met - transferred to revenue	(1 199 999)	(1 754 475)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is for the upgrading of the Koffiefontein sewer pump system. No amount was withheld during the year.

National: FMG Grant

	2016	2015
Balance unspent at beginning of year	-	-
Current-year receipts	1 800 000	1 800 000
Conditions met - transferred to revenue	(1 800 000)	(1 800 000)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

National: MSIG Funds

	2016	2015
Balance unspent at beginning of year	-	-
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

National: EPWP Grant

Figures in Rand	2016	2015

27. Government grants and subsidies (continued)

Current-year receipts	1 000 000	1 010 000
Conditions met - transferred to revenue	(1 000 000)	(1 010 000)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The Expanded Public Works Programme Grant was allocated to the municipality for environmental and water infrastructure projects. No amount was withheld during the year.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Figures in Rand	2016	2015

28. Employee related costs

Basic	28 157 853	25 389 976
Bonus	71 237	-
Medical aid - company contributions	1 781 167	1 753 492
UIF	343 144	239 811
WCA	-	575 555
Other payroll levies	298 558	-
Defined contribution plans	225 159	196 664
Travel, motor car, accommodation, subsistence and other allowances	2 731 218	1 707 322
Overtime payments	5 281 654	3 695 197
Long-service awards	-	121 522
13th Cheques	2 852 581	2 093 268
Housing benefits and allowances	120 317	332 465
Other	18 851	15 174
Telephone allowance	104 429	86 200
Contribution to pension fund	3 423 957	2 637 898
	45 410 125	**38 844 544**

Remuneration of Municipal Manager

Annual Remuneration	694 500	636 625
Car Allowance	231 500	212 208
Contributions to UIF, Medical and Pension Funds	280 392	8 140
Other	61 345	6 475
	1 267 737	**863 448**

Remuneration of chief finance officer

Annual Remuneration	470 504	275 486
Car Allowance	79 260	18 000
Telephone Allowance	-	2 500
Contributions to UIF, Medical and Pension Funds	223 761	30 579
Other	29 278	49 755
Acting Allowance	24 647	33 365
	827 450	**409 685**

Ms. J. Mazinyo was appointed as the Acting CFO from 1 April 2015.

Mr. K. Khoabane was appointed as the CFO from 1 February 2016.

The remuneration of all the above mentioned was disclosed as part of the remuneration of the Chief Financial Officer.

Remuneration of the Manager: Community Services

Annual Remuneration	374 116	493 296
Car Allowance	48 920	105 000
Contributions to UIF, Medical and Pension Funds	165 363	71 927
Other	34 415	9 564
Acting Allowance	15 161	77 017
Telephone allowance	-	5 000
	637 975	**761 804**

Remuneration of the Manager: Technical Services

Annual Remuneration	376 416	699 771
Car Allowance	80 100	151 563

Figures in Rand	2016	2015

28. Employee related costs (continued)

Acting Allowance	142 146	69 866
Contributions to UIF, Medical and Pension Funds	265 898	27 654
Other	102 025	12 257
Telephone Allowance	-	7 500
	966 585	**968 611**

Remuneration of the Manager: Corporate Services

Annual Remuneration	607 070	237 000
Car Allowance	134 000	63 000
Contributions to UIF, Medical and Pension Funds	289 465	-
Telephone Allowance	-	5 000
Acting Allowance	-	85 493
Other	57 899	8 535
	1 088 434	**399 028**

29. Remuneration of councillors

Councillors	3 644 162	3 143 467

30. Administrative expenditure

Administration and management fees - third party	(439)	174 019

31. Depreciation and amortisation

Property, plant and equipment	29 836 225	28 593 065

32. Impairment of assets

Impairments		
Property, plant and equipment	1 273 211	680 523
Property, plant and equipment have been impaired due to condition assessments that indicated a decrease in the value in use since the last assessment]		

33. Finance costs

Bank	1 522 022	1 427 821

34. Debt impairment

Contributions to debt impairment provision	19 522 529	12 856 662
Bad debts written off	(4 302 403)	1 085 259
	15 220 126	**13 941 921**

35. Bulk purchases

Electricity	19 685 676	18 850 443
Water	4 533 188	3 754 339
	24 218 864	**22 604 782**

Figures in Rand	2016	2015

36. General expenses

Advertising	326 870	294 671
Auditors remuneration	2 904 206	2 815 176
Bank charges	251 022	248 761
Consulting and professional fees	7 446 186	4 871 773
Consumables	212 837	457 682
Donations	26 500	233 206
Entertainment	75 734	119 060
Hire	591 013	1 881 750
Insurance	808 606	3 719 297
IT expenses	70 425	333 137
Fuel and oil	631 064	1 011 035
Postage and courier	4 184	15 998
Printing and stationery	6 990 177	388 327
Royalties and license fees	134 076	97 273
Subscriptions and membership fees	533 015	1 452 773
Telephone and fax	2 001 668	1 581 709
Training	109 091	470 824
Travel - local	404 230	318 983
Electricity	3 541 873	3 536 913
Uniforms	233 790	216 510
Special events and programs	786 288	1 097 744
Accommodation cost	465 789	755 817
WARD Committee expense	(79 000)	264 246
Funeral cost	34 080	36 417
SMME projects	941 107	-
Water tests	114 843	329 645
Chemicals	1 670 955	1 518 006
Other expenses	7 930 866	882 207
	39 161 495	**28 948 940**

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

Sundry expenses include the expenditure to settle the amounts owed to the two former employees. Refer to note 44:Contingencies for further information.

Insurance expenses include the claims received by the Municipality in 2014/2015. The proceeds was paid over to the beneficiaries of the key man policies paid by the Municipality.

No other extra-ordinary expenses were incurred.

37. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at FV through P&L	927 920	449 413

38. Auditors' remuneration

Fees	2 904 206	2 815 176

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

39. Cash generated from (used in) operations

Deficit	(27 189 053)	(10 259 412)
Adjustments for:		
Depreciation and amortisation	29 836 225	28 593 065
Fair value adjustments	(927 920)	(449 413)
Finance costs - Finance leases	(529 809)	137 048
Impairment deficit	1 273 211	680 523
Debt impairment	15 220 126	13 941 921
Movements in retirement benefit assets and liabilities	(4 401 703)	(3 759)
Movements in provisions	9 679 757	(2 189 070)
Changes in working capital:		
Inventories	2 953 720	(6 162 855)
Receivables from exchange transactions	-	(4 924 051)
Consumer debtors	(28 015 092)	(13 941 922)
Other receivables from non-exchange transactions	2 855 357	(2 418 896)
Prepayments	(2)	511 879
Payables from exchange transactions	4 272 903	(623 958)
VAT	9 144 600	(5 551 289)
Unspent conditional grants and receipts	3 864 840	(1 810 386)
Consumer deposits	52 224	28 435
Other liability /assets - due to payment made on cash basis	105 168 456	(1 107 328)
	123 257 840	**(5 549 468)**

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	9 226 152	8 395 014

Total capital commitments		
Already contracted for but not provided for	9 226 152	8 395 014

Total commitments

Total commitments		
Authorised capital expenditure	9 226 152	8 395 014

This committed expenditure relates to property, plant and equipment and will be financed from own resources.

41. Related parties

During the year there were no related party transactions. The Municipality has various processes in place to identify and note any related party balances and transactions. These range from disclosure on the bid documents to maintenance of a conflict register for councillors and senior managers, this is kept in the office of the Municipal Manager.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

42. Accounting Officer's and prescribed officer's remunerations

Municipal Manager

2016

	Remmuneration	Car allowance	Acting Allowance	Contributions to UIF, Medical Aid & Pension Fund	Other	Total
Mr B.A Mnguni (held position from 01/08/2014)	694 500	231 500	-	280 392	61 345	1 267 737

2015

	Remuneration	Car Allowance	Acting Allowannce	Contributions to UIF, Medical Aid & Pension Fund	Other	Total
Mr B.A Mnguni (held position from 01/08/2014)	636 625	212 208	-	8 140	-	856 973
Mr Z Manjiya (Acting MM from 01/07/2014 -31/07/2014)	-	-	6 475	-	-	6 475
	636 625	**212 208**	**6 475**	**8 140**	-	**863 448**

Prescribed officers

2016

	Remuneration	Car Allowance	Contributions to UIF, Medical Aid & Pension Fund	Other Benefits	Acting Allowance	Total
Chief Financial Officer - Sesane	62 627	13 680	66 554	70 374	19 372	232 607
Chief Financial Officer - Khoabane	367 665	60 000	133 140	6 087	-	566 892
Chief Financial Officer - Manziyo	102 839	19 260	90 621	23 191	24 647	260 558
Community Services - Makhoba	342 802	42 500	147 704	20 303	9 875	563 184
Community Services -Visagie	31 314	6 420	17 659	14 112	5 286	74 791
Technical Services - Bapela	170 874	39 360	132 080	51 989	48 647	442 950
Technical Services - Tsoane	205 542	40 740	133 818	50 036	93 499	523 635
Corporate Services - Deeuw	607 070	134 000	289 465	57 899	-	1 088 434
	1 890 733	**355 960**	**1 011 041**	**293 991**	**201 326**	**3 753 051**

2015

	Remuneration	Car Allowance	Other benefits	Telephone Allowance	Total
Chief Financial Officer - Z. Manjiya (Acting CFO 01/07/2014 - 31/08/2014)	136 667	-	1 979	1 000	139 646
Chief Financial Officer - L. Mashiane (Acting 01/09/2014 - 31/03/2015)	59 792	-	619	-	60 411
J Mazinyo (01/04/2015 -Current)	123 000	18 000	67 127	1 500	209 627
Community Services -T.A. Reachable (Acting till date of appointmennt on 01/02/2015)	570 313	105 000	81 491	5 000	761 804
Corporate Services- T. Deeuw (acting till date of appointment 01/02/2015)	322 493	63 000	8 535	5 000	399 028
Technical Services -N.C. Gaelejwe	508 161	106 850	5 988	4 000	624 999
K.R. Bapela (Acting 01/12/2014 -30/04/2015)	181 517	44 713	32 803	2 500	261 533

Figures in Rand				2016	2015

42. Accounting Officer's and prescribed officer's remunerations (continued)

M.Tlali (Acting 01/05/2015 - Current)	79 958	-	1 121	1 000	82 079
	1 981 901	**337 563**	**199 663**	**20 000**	**2 539 127**

43. Prior period errors

During the year under review, the following errors were identified for prior year Annual Financial Statements:

Consumer debtors figure has changed due the the fact that the prepayment are now separately disclosed.

Heritage assets changed as a result of errors made by the municipality in recognising heritage assets that didi not belong to them.

Property Plant and Equipment was restated largerly due to correction of prior period errors arising from properties not belonging to the Municipality having being account for as municipal assets.

Service charges have been adjusted to reflect errors in previous years billings.

Property rates were adjusted to reflect errors noted in previous calculations.

Debt impairment has been adjusted to reflect changes in the payment charge as a result of corrections to prior year service fees and property rates.

Changes in finance costs are related to the re -estimation of the costs associated with the rehabiliation of land fill sites.

Depreciation charges are linked directly to errors in estimation of landfill site rehabiliation costs.

The correction of the errors results in adjustments as follows:

44. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

44. Risk management (continued)

Liquidity risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial

Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk

management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

44. Risk management (continued)

Credit risk

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled

in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who

acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

• The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;

• A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;

• The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;

• The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;

• Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting.

44. Risk management (continued)

A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment /discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Market risk

Interest rate risk

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

.

45. Going concern

Management considered the following matters relating to the Going Concern:

(i) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(ii) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

46. Events after the reporting date

No events having financial implications requiring disclosure occured subsequent to 30 June 2016.

Figures in Rand	2016	2015

47. Unauthorised expenditure

Opening	92 471 308	64 555 974
Current year expenditure	32 985	27 915 334
	92 504 293	**92 471 308**

48. Fruitless and wasteful expenditure

Opening balance	1 892 792	1 587 068
Current year expenditure	19 103 918	305 724
	20 996 710	**1 892 792**

The current year fruitless and wasteful expenditure occurred due to the following incidents:

Interest paid to creditors on late payments - Eskom, Telkom, UFS,Kalkfontien, Oranje Riet and KWJ attorneys - R (2015: R60 302).

Fines paid to Dihlabeng Traffic department and Mangaung Metropolitan Municipality - R (2015: R 0).

De Waal Nortje Ingelyf quantity surveyors and KWJ attorneys for Legal cost incurred - R (2015: R 0).

VAT paid to non-vendors for SMME projects - R (2015: R 0).

Damage to vehicle not insured - R (2015: R0).

Debit order payments made to suppliers after the contract has expired - R (2015: R 95 444).

Interest and penalties due to late payments of VAT R (2015: R149 978.

All the incidents above will be submitted to council for condonement.

49. Irregular expenditure

Opening balance	107 889 864	88 064 441
Add: Irregular Expenditure - current year	920 540	19 825 423
	108 810 404	**107 889 864**

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(33 250)	(37 250)
Current year subscription / fee	500 000	4 000
	466 750	**(33 250)**

Figures in Rand	2016	2015

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material losses through criminal conduct

Opening balance	-	3 477 531
Current year subscription / fee	-	10 675 551
	-	**14 153 082**

Electricity Losses occur due to inter alia, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Electricity distribution losses for the period exceeds the norm of 7% - 10% as per section 125 of the MFMA.

Water Losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported.

Water Loss amounted to R 2 835 841.98 (2015 : R 8 462 344)

Audit fees

Opening balance	5 817	4 408
Current year subscription / fee	2 904 206	2 806 067
Amount paid - current year	(2 897 106)	(2 804 658)
	12 917	**5 817**

PAYE and UIF

Opening balance	49 861	49 861
Current year subscription / fee	5 608 400	4 883 270
Amount paid - current year	(5 129 707)	(4 883 270)
	528 554	**49 861**

Pension and Medical Aid Deductions

Opening balance	(929 672)	(294 188)
Current year subscription / fee	4 190 366	4 698 820
Amount paid - current year	(4 190 366)	(5 334 304)
	(929 672)	**(929 672)**

The balance represents Pension and Medical Aid contributions deducted from employees and councillors in June 2016 payroll, as well as the municipality's contribution to these funds.

VAT

VAT receivable	593 816	9 738 416

VAT output payables and VAT input receivables are shown in note .

51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

52. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

Statement of Financial Performance
REVENUE

Revenue from exchange transactions	Reference	% Variance Approved budget vs Final budget	Explanation of Significant Variances greater than 10% of Approved budget versus Final Budget	% Variance Final budget vs Actual amounts	Explanation of material differences between Final Budget vs Actual amounts
Service charges	1	-14,3%		-1,3%	
Interest on outstanding receivables	2	100%	No budget was done for interest on outstanding receivables.	-	-
Interest on investment	3	-76%	The decrease is mainly attributed to the reduction in investments during the financial year.		
Other income	4				